



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

January 18, 2006

H.R. 1815 **National Defense Authorization Act for Fiscal Year 2006**

*As cleared by the Congress on December 21, 2005,
and signed by the President on January 6, 2006*

SUMMARY

H.R. 1815 authorizes the appropriation of about \$492 billion for fiscal year 2006. Those discretionary costs of implementing the act are not discussed here; this cost estimate addresses only the legislation's effects on direct spending and revenues.¹

H.R. 1815, enacted as Public Law 109-163, contains provisions that will both increase and decrease outlays from direct spending, including provisions affecting military retirement and housing for active-duty servicemembers and their families. H.R. 1815 also will allow the Department of Defense (DoD) to increase sales of certain materials from the strategic stockpile. Overall, CBO estimates that H.R. 1815 will decrease direct spending by \$24 million in 2006, \$62 million over the 2006-2010 period, and \$40 million over the 2006-2015 period.

In addition, the act allows the Secretary of Defense to accept donations to cover the cost of participation of servicemembers and military organizations in a day of celebration honoring members of the Armed Forces for their service in Operation Enduring Freedom and Operation Iraqi Freedom. CBO estimates the collection of such donations will increase governmental receipts (i.e., revenues) by \$2 million in 2006.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the budgetary effects of provisions that affect direct spending (including proceeds from asset sales) and revenues is shown in Table 1. The effects of direct spending

1. For details on discretionary costs, see [the cost estimate transmitted on May 23, 2005, for H.R. 1815](#), as reported by the House Committee on Armed Services; and [the cost estimate transmitted on June 2, 2005, for S. 1042](#) (an identically titled bill), as reported by the Senate Committee on Armed Services. (Both of those estimates are available at www.cbo.gov.) Earlier versions of the legislation would have authorized a somewhat lower amount for 2006 appropriations.

fall primarily within budget functions 050 (national defense), 600 (income security), and 700 (veterans benefits and services).

TABLE 1. SUMMARY OF H.R. 1815's EFFECTS ON DIRECT SPENDING AND REVENUES

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Changes in outlays ^a	-24	-26	-5	-40	31	-24	17	19	13	3
Changes in revenues	2	0	0	0	0	0	0	0	0	0

a. Five- and 10-year costs in the text differ slightly from the sum of the annual costs listed here because of rounding.

BASIS OF ESTIMATE

H.R. 1815 contains provisions that will both increase and decrease outlays from direct spending, including asset sales. In total, CBO estimates that the act will decrease direct spending by \$24 million in 2006, \$62 million over the 2006-2010 period, and \$40 million over the 2006-2015 period (see Table 2). The act also will have a small impact on revenues (about \$2 million) in 2006.

Direct Spending (Excluding Asset Sales)

The act has estimated direct spending of \$240 million (before inclusion of asset sale proceeds) over the 2006-2015 period.

Modification of Phase-In for Concurrent Receipt. Section 663 will modify the phase-in period for concurrent receipt of military retirement annuities and veterans' disability compensation for certain retirees. Prior to January 1, 2004, military retirement annuities were reduced by the full amount of any veterans' disability compensation received. Under Public Law 108-136, enacted on November 24, 2003, retirees rated by the Department of Veterans Affairs (VA) as 50 percent to 90 percent disabled will see that offset gradually decrease until January 1, 2014, when they will receive both benefits in full.

Section 663 allows retirees who are rated by VA as 60 percent to 90 percent disabled and also unemployable to receive full concurrent receipt as of October 1, 2009. Based on information from DoD and VA, CBO estimates that by 2010, 30,000 retirees will be rated

between 60 percent and 90 percent disabled and unemployable, and that their retirement annuities, on average, will be reduced by \$2,400. CBO estimates that moving the date for full concurrent receipt forward to October 1, 2009, for this group of retirees will increase direct spending for military retirement annuities by \$72 million in 2010, and \$164 million over the 2010-2015 period.

TABLE 2. IMPACT OF H.R. 1815 ON DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN DIRECT SPENDING (EXCLUDING ASSET SALES)										
Modification of Phase-In for Concurrent Receipt										
Estimated Budget Authority	0	0	0	0	72	41	24	16	11	0
Estimated Outlays	0	0	0	0	72	41	24	16	11	0
Leasing of High-Cost Housing in Korea										
Estimated Budget Authority	0	65	0	0	0	0	0	0	0	0
Estimated Outlays	0	3	30	25	5	0	0	0	0	0
Supplemental Subsistence Allowance										
Estimated Budget Authority	0	-4	-4	-4	-4	-4	-4	-4	-4	-4
Estimated Outlays	0	-4	-4	-4	-4	-4	-4	-4	-4	-4
TRICARE Coverage for Reservists										
Estimated Budget Authority	1	2	3	4	4	4	4	4	4	5
Estimated Outlays	1	2	3	4	4	4	4	4	4	5
Reserve Officers' Training Corps Scholarships										
Estimated Budget Authority	*	1	1	1	1	1	1	1	1	1
Estimated Outlays	*	1	1	1	1	1	1	1	1	1
Dual-Status Technicians										
Estimated Budget Authority	0	0	*	-1	-1	-1	-1	-1	-1	-1
Estimated Outlays	0	0	*	-1	-1	-1	-1	-1	-1	-1
Time-in-Grade Requirement										
Estimated Budget Authority	*	*	*	1	1	1	1	1	1	1
Estimated Outlays	*	*	*	1	1	1	1	1	1	1
Tests for Licensing and Certification										
Estimated Budget Authority	*	*	*	*	1	1	1	1	1	1
Estimated Outlays	*	*	*	*	1	1	1	1	1	1
Debt Forgiveness										
Estimated Budget Authority	2	1	*	0	0	0	0	0	0	0
Estimated Outlays	2	1	*	0	0	0	0	0	0	0
Celebration to Honor the Armed Forces										
Estimated Budget Authority	2	0	0	0	0	0	0	0	0	0
Estimated Outlays	1	1	0	0	0	0	0	0	0	0

(Continued)

TABLE 2. CONTINUED

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Drydock Sales										
Estimated Budget Authority	-2	0	0	0	0	0	0	0	0	0
Estimated Outlays	-2	0	0	0	0	0	0	0	0	0
Logistics Support for Weapons Systems										
Contractors										
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	0	-3	-1	-1	3	1	1	0	0
Subtotal										
Estimated Budget Authority	3	65	0	1	74	43	26	18	13	3
Estimated Outlays	2	4	27	25	78	46	27	19	13	3
ASSET SALES (A CREDIT AGAINST DIRECT SPENDING)										
National Defense Stockpile										
Estimated Budget Authority	-26	-30	-32	-65	-47	-70	-10	0	0	0
Estimated Outlays	-26	-30	-32	-65	-47	-70	-10	0	0	0
TOTAL CHANGES IN DIRECT SPENDING										
Estimated Budget Authority	-23	35	-32	-64	27	-27	16	18	13	3
Estimated Outlays	-24	-26	-5	-40	31	-24	17	19	13	3

NOTE: * = between -\$500,000 and \$500,000.

a. Five- and 10-year totals stated in the text differ slightly from the sum of the annual costs shown here because of rounding.

Leasing of High-Cost Housing in Korea. Section 2802 will increase the number of housing units from 2,400 to 2,800 that DoD can lease in Korea at the maximum annual rent of \$35,000 per unit. CBO estimates that this provision will increase direct spending by \$65 million over the 2007-2015 period because we expect that DoD will use the extended leasing authority as a means of acquiring family housing for military personnel without having appropriations for the full cost of that housing when the agreement to lease the housing is signed.

Based on information provided by DoD, CBO expects the department will use the authority to enter into build-to-lease housing contracts for an additional 400 housing units. Under a build-to-lease agreement, the government contracts with a developer to construct housing for a specified number of units in a specified location for use by military personnel. According to DoD, the military services often agree to a fixed lease term—currently limited to a maximum of 15 years for housing in Korea—with renewal options for additional periods of time. These renewal options can extend the duration of the lease term to 30 years or more. Based on the government's commitment to lease the housing, the developer borrows money

to pay for construction of the units, using the promised payments from the government to demonstrate the project has a reliable source of income for debt service. CBO considers these build-to-lease transactions a form of third-party financing of a government acquisition, and believes that the full cost of constructing those units should be recorded in the budget at the time those units are constructed.

Thus, this provision will increase direct spending for family housing by \$65 million over the 2007-2015 period. That total cost is based on estimates of the price and size of military family housing units in Korea, which CBO derived from data about recent family housing construction projects and DoD's facilities planning documents.

Supplemental Subsistence Allowance. Section 608 makes permanent a program that provides a supplemental food allowance to servicemembers with dependents who meet the gross income test for the Food Stamp program. Under prior law, the authority for this allowance would have expired on September 30, 2006. CBO estimates that making this allowance permanent will reduce direct spending for food stamps by \$4 million in fiscal year 2007, by \$16 million over the 2007-2010 period, and by \$36 million over the 2007-2015 period. Absent receipt of this allowance, CBO estimates that some low-income military families would have applied for food stamps and a small number of military households that currently receive both food stamps and this allowance would have received an increase in their food stamp benefits. Based on data from DoD, CBO estimates that, under this section, about 1,400 fewer households a year, on average, will receive food stamps than under prior law. CBO estimates that these households would have received an average of \$220 in food stamp benefits a month.

TRICARE Coverage for Reservists. Section 702 will allow certain reservists, including those who receive unemployment compensation, to participate in TRICARE Reserve Select. TRICARE Reserve Select is a program operated by DoD where eligible reservists can purchase health care insurance by paying premiums specified in law. CBO estimates that allowing reservists who receive unemployment compensation to be eligible for this health care insurance program will result in having some of those individuals remain on unemployment insurance for a longer period; increasing the average benefit period by up to one week at an average cost of about \$260 per person in 2006. Based on CBO's projections of national unemployment trends, CBO estimates that about 6,000 unemployed reservists will use TRICARE Reserve Select in 2006, with that number growing to about 13,000 for 2008 and beyond. Thus, CBO estimates that, under section 702, spending for unemployment compensation will increase by \$1 million in 2006, \$14 million over the 2006-2010 period, and \$35 million over the 2006-2015 period.

Reserve Officers' Training Corps (ROTC) Scholarships. Section 532 will double the number of ROTC scholarships that may be provided to cadets intending to remain in the Selected Reserve from 208 to 416. Cadets using these scholarships are also entitled to Montgomery GI Bill-Selected Reserve (MGIB-SR) educational benefits. The current

monthly stipend for MGIB-SR is \$288. CBO estimates that the monthly benefit will increase with annual cost-of-living adjustments to about \$360 in 2015. Based on information from DoD, CBO also expects these cadets will receive a \$350 a month increase in their MGIB-SR stipend under a program of accession incentives currently offered by the reserves. CBO estimates that this provision will increase direct spending for MGIB-SR benefits by less than \$500,000 in 2006, by about \$5 million over the 2006-2010 period, and by \$11 million over the 2006-2015 period.

Dual-Status Technicians. Dual-status military technicians are civilian employees of DoD who are required to hold concurrent positions in the reserves. Under recent policy, some technicians who are officers in the Army Reserve would have been forced to retire from their civil service positions when they reach the maximum years-of-service for officers in their grade and become eligible for an unreduced civil service annuity, usually at age 55 or 56.

Section 513 directs the Secretary of the Army to allow these officers to remain in the reserves until they reach age 60. Under this section, some technicians who would have had to retire between the age 55 and 59 will choose to defer their civil service retirements by one or more years, reducing retirement outlays. Based on information from DoD, CBO estimates that implementing this provision will eventually result in about 50 fewer retirements each year. Based on information from DoD and the Office of Personnel Management on retirement annuities, CBO estimates that this section will result in a net reduction in direct spending for retirement annuities of less than \$500,000 in 2006, about \$2 million over the 2006-2010 period, and \$10 million over the 2006-2015 period.

Time-in-Grade Requirements. Section 501 temporarily doubles the number of Naval and Air Force officers in the ranks of O-5 and O-6 that can receive a waiver to retire at their current rank after serving two years in that rank instead of meeting the usual three-year requirement. Without such a waiver, officers who do not meet the time-in-grade requirements must retire at the next lowest grade in which they do meet the requirements, and receive a smaller retirement annuity. Under the provision, the increase in waiver authority, from 2 percent to 4 percent of the authorized endstrength by grade and service, will be effective until December 31, 2007. DoD reports that only the Air Force plans to make significant use of the waiver expansion.

Based on information from DoD, CBO expects that the Air Force will use this authority to grant about 570 additional waivers over the 24-month period. CBO estimates that without the additional waiver authority, about 10 percent of these officers would have retired at the lower rank. Based on pay and annuity information from DoD, CBO estimates the annual increase in retirement annuities for these officers will, on average, be about \$9,500 at the time of their retirement, increasing with cost-of-living adjustments to about \$11,400 in 2015. Thus, CBO estimates this section will increase spending for retirement annuities by less than \$500,000 in 2006, by \$2 million over the 2006-2010 period, and by \$5 million over the 2006-2015 period.

Tests for Licensing and Certification. Section 539 extends MGIB-SR benefits to cover the cost of tests required for occupational licensing and certification, a benefit already authorized under the Montgomery GI Bill. Based on usage rates and average payments in that program, CBO estimates that about 2,000 reservists will take advantage of this new benefit each year and receive an average benefit of about \$220 in 2006. Assuming the average amount of the benefit will increase with a cost-of-living adjustment to about \$270 in 2015, CBO estimates that section 539 will increase direct spending for MGIB-SR benefits by less than \$500,000 in 2006, by about \$2 million over the 2006-2010 period, and \$5 million over the 2006-2015 period.

Debt Forgiveness. Section 683 expands the authority of the service secretaries to forgive debts incurred by members of the Armed Forces. Prior law limited this authority to enlisted members only, whereas this section expands and clarifies this authority to include officers and members of the Reserve and National Guard serving on active duty. This additional authority applies retroactively to debts incurred on or after October 7, 2001, and will expire on December 31, 2007. Because some of these debts would have been paid to DoD and the Treasury, this additional authority could result in a loss of offsetting collections and receipts. (These debts involve recovery for overpayments or damaged property, thus they would be credited against outlays.)

Based on data from the Department of Defense, CBO estimates an additional 1,500 servicemembers will have debts forgiven each year under this expanded authority and the average amount of each debt will be about \$1,000. However, because most of these funds would have been credited back to appropriations accounts under current law, CBO estimates the net loss of offsetting collections and receipts due to this expanded authority will only total about \$1 million a year. CBO estimates that the amount of lost collections and receipts will be slightly higher in 2006 because CBO assumes the service secretaries will forgive some debts incurred during fiscal years 2002 through 2005. Thus, the increase in direct spending from the expanded authorities will total about \$2 million in 2006 and \$3 million over the 2006-2008 period, CBO estimates.

Celebration to Honor the Armed Forces. Section 378 allows the Secretary of Defense to accept and spend cash donations from private individuals and entities made to cover the cost of participation of members and units of the Armed Forces in a day of celebration in 2006 to honor members of the Armed Forces who have served in Operation Enduring Freedom and Operation Iraqi Freedom. CBO estimates that implementing this provision will increase direct spending by \$1 million in both 2006 and 2007. (Gifts and donations are recorded in the budget as revenues. CBO's estimate of the revenues that will be collected under this provision are discussed below under the heading of "Revenues.")

Drydock Sales. Sections 1011, 1012, and 1013 will allow the Navy to convey three floating drydocks (known as YFD-70, AFDM-7, and AFDM-2) to various shipyards and port authorities and requires these entities to compensate the U.S. government an amount equal

to the drydock's fair market value in return. CBO estimates that the sale of these drydocks will generate about \$2 million in offsetting receipts in 2006.

Logistics Support for Weapons Systems Contractors. Section 331 extends the authority for the Defense Logistics Agency (DLA) to provide contract support services to weapons systems contractors from 2007 to 2010. Under prior law, DLA was allowed to receive payments from weapons system contractors for such services as parts distribution and storage. Since DLA is allowed to retain and spend the receipts generated from the provision of these services, CBO estimates that this provision will not affect budget authority, but will affect the timing of outlays. Accounting for the lag when CBO expects DLA to receive payments from these contractors for these services and when DLA will spend those receipts, CBO estimates that implementing this provision will result in direct spending outlay savings of \$5 million over the 2008-2010 period, but have no net effect over the 2008-2015 period.

Other Provisions. The following provisions will have an insignificant budgetary impact on direct spending:

- Section 374 authorizes the Secretary of Defense to accept and spend gifts made on the condition that such gifts are used for the benefit of members of the Armed Forces or civilian employees of DoD who incur an injury, wound or illness while in the line of duty. The authority to accept such gifts expires on December 31, 2007.
- Section 502 temporarily authorizes DoD to grant waivers to reduce the length of commissioned service required for retirement as an officer. Officers who do not meet commissioned service requirements must retire at the highest enlisted grade held, resulting in receipt of a significantly smaller retirement annuity. The waiver authority will be effective through December 31, 2008, and allows retirement as an officer with eight rather than 10 years of commissioned service. Based on information from DoD, CBO expects that few such waivers will be offered or accepted. Thus, CBO estimates that this section will increase direct spending for retirement annuities by less than \$500,000 a year.
- Section 514 allows certain members of the National Guard who served on state active duty in support of a federal declaration of emergency between September 11, 2001, and October 1, 2002, to apply that time served toward their federal military retirement. While this proposal will increase direct spending for retirement annuities, CBO cannot estimate the effects at this time, because the National Guard Bureau has not been able to determine the number of Guardsmen who will be affected by this section; however, we believe the costs are unlikely to be significant.

- Section 540 modifies the educational assistance program for reservists called to active duty. It specifies that the benefit be administered by the Secretary of Veterans Affairs and allows members with a brief break in service in the Selected Reserve to retain eligibility for the benefit. CBO estimates that implementing this provision will not significantly alter program usage or program outlays.
- Section 644 allows DoD to pay a \$5,000 bonus to nursing candidates in the senior ROTC program at the beginning of their junior year of college if they agree to serve on active duty as an officer in the Army Nurse Corps. Based on information from DoD, CBO estimates that this provision will increase direct spending by less than \$500,000 in 2006 because the authority to provide this bonus applies to agreements made on or after October 5, 2004.
- Section 665 allows payments of court-ordered child support to be made from the military retirement fund to the dependent children of certain members or former members of the Armed Forces who have lost eligibility to their retirement benefits. Based on information from DoD about the number of individuals who will likely qualify under this provision, CBO estimates that this section will increase direct spending for military retirement annuities by less than \$500,000 a year over the 2006-2015 period.
- Section 689 permits members of the National Guard and Reserve to return to the Supplemental Security Income (SSI) program within 24 months if they lost eligibility when called to active duty. Under prior law, that window was 12 months, after which the claimant had to formally reapply. Those affected by the proposed extension are chiefly disabled children whose parent's income increases after activation. CBO estimates that the provision will have a negligible effect on SSI outlays.

Asset Sales

Title XXXIII of the act contains provisions that will increase receipts from asset sales by \$26 million in 2006 and a total of \$280 million over the 2006-2012 period. Section 3302 increases by \$130 million the targets contained in the National Defense Authorization Act for Fiscal Year 1999 (Public Law 105-261, later revised by Public Laws 106-398, 107-107, and 108-375) for sales from the National Defense Stockpile through 2013. CBO estimates that there will be sufficient quantities of materials in the stockpile to increase receipts by \$12 million in 2006 and to achieve \$130 million in additional receipts over the 2006-2009 period.

In addition, section 3302 will increase by \$150 million the targets contained in the National Defense Authorization Act for Fiscal Year 2000 (Public Law 106-65, later revised by Public Law 108-136) for sales from the National Defense Stockpile through 2013. CBO estimates

that there will be sufficient quantities of materials in the stockpile to achieve \$70 million in additional receipts over the 2008-2010 period and a total of \$150 million in additional receipts over the 2008-2012 period.

Section 3303 will authorize the sale of 8 million pounds of tungsten from the National Defense Stockpile in fiscal year 2006. Under prior law, about 5 million pounds of tungsten could be sold each year and CBO estimate that these sales would continue for the foreseeable future at those levels. CBO estimates that selling an additional 3 million pounds of tungsten in 2006 will increase receipts by \$14 million in 2006 but result in no net receipts over the 2006-2010 period because the act does not increase the total amount of tungsten sold over the five-year period; thus, the provision accelerates sales that would have occurred in 2009.

Revenues

Celebration to Honor the Armed Forces. Section 378 allows the Secretary of Defense to accept and spend cash donations from private individuals and entities made to cover the cost of participation of members and units of the Armed Forces in a day of celebration to honor members of the Armed Forces who have served in Operation Enduring Freedom and Operation Iraqi Freedom. CBO estimates that the DoD will collect \$2 million in gifts in 2006 under this provision.

Other Provisions. The following provisions will have an insignificant impact on revenues:

- Section 374 authorizes the Secretary of Defense to accept gifts made on the condition that such gifts are used for the benefit of members of the Armed Forces or civilian employees of DoD who incur an injury, wound or illness while in the line of duty. The authority to accept such gifts expires on December 31, 2007. CBO estimates that any receipts collected under this provision will likely total less than \$500,000 over the 2006-2007 period.
- Section 605 allows the Secretaries of each branch of the Armed Forces to institute matching contributions to the Thrift Savings Plan (TSP) for first-time enlistees who commit to an enlistment period of at least two years. Under prior law, the Secretaries were authorized to offer matching contributions only to retain servicemembers with critical specialties. To date, none of the Secretaries have authorized such contributions. Although the act significantly expands the potential numbers of individuals who will qualify for matching of their contributions to the TSP, CBO assumes that the Secretaries will continue to not authorize such matching of contributions. Therefore, CBO estimates that this provision will likely have no budgetary effect.

- Section 606 directs the Secretary of the Army to initiate a pilot program in fiscal year 2006 to determine the effectiveness for recruiting efforts of matching the contributions made by first-time enlistees to the TSP. The Armed Forces could not make matching contributions to first-time enlistees under prior law. Thus, CBO expects instituting matching contributions will encourage new enlistees to increase their participation in the TSP. Because income taxes are deferred on TSP contributions, the anticipated increase in contributions will result in lower income-tax revenue.

For purposes of this estimate, CBO assumes that, under the pilot program, the Army will offer the opportunity to obtain matching contributions to approximately 8,000 first-time enlistees or about 10 percent of the enlistees expected for fiscal year 2006. Because the size of the pilot program will be small, CBO estimates that the revenue losses will be insignificant (less than \$500,000 a year).

PREVIOUS CBO ESTIMATES

On May 23, 2005, CBO transmitted a cost estimate for H.R. 1815 as reported by the House Committee on Armed Services on May 20, 2005. CBO estimated that the earlier version of the act would have decreased direct spending by \$84 million over the 2006-2010 period but increased such spending by about \$38 million over the 2006-2015 period.

On June 2, 2005, CBO transmitted a cost estimate for S. 1042, the National Defense Authorization Act for Fiscal year 2006, as reported by the Senate Committee on Armed Services on May 17, 2005. CBO estimated that this legislation would decrease direct spending by almost \$150 million over the 2006-2010 period and by about \$230 million over the 2006-2015 period.

Many provisions in H.R. 1815 are identical to or very similar to provisions in the earlier versions of the legislation. However, H.R. 1815, as cleared by the Congress and signed by the President, contains several provisions, including one that will expand TRICARE coverage for reservists, that were not in either of the bills that were previously estimated by CBO. CBO estimates those provisions will increase direct spending by \$2 million in 2006, \$15 million over the 2006-2010 period, and by \$35 million over the 2006-2015 period. Thus, the differences in estimated costs reflect differences in the legislation.

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